Testimony of James M. Roolf

U.S. House Committee on Financial Services

On behalf of the

Illinois Bankers Association

Before the

Committee on Financial Services

United States House of Representatives

December 5, 2011

Chairman Bachus, Ranking Member Frank and members of the committee, my name is James Roolf, and I am President of First Midwest Bank's Joliet Banking Center, which is an $8.4 billion bank headquartered in Itasca, Illinois.

It is a privilege for me to be here today as Chairman of the Illinois Bankers Association (IBA), which represents well over 325 banks and savings institutions of all sizes across our state.

Illinois is home to more banks and savings institutions than any other state in the nation. There are 636 FDIC-insured banks and thrifts with nearly 5,000 banking offices doing business in Illinois. Of those, 584 are headquartered in Illinois, representing $341.5 billion in assets and $276.3 billion in deposits.

I'd like to start by thanking you for convening this important and historic hearing, and for giving me the opportunity to present the views of the IBA concerning the considerable challenges that our members, banks large and small across the state, are facing from the current—and yet to be determined—future regulatory environment and the impact that these challenges are having on consumers and local communities.

No doubt in recent months, you have heard from hundreds of witnesses who have testified before you that the strength and health of the banking industry and economic strength of our communities are closely interwoven.

It is a well-known fact that when a bank establishes roots in a local community, that community thrives. Many Illinois banks have been in their communities for decades and hopefully they will have the opportunity to be there for many more decades to come.

In fact, over 575 Illinois banks have been in business for more than half a century the majority of which have served their local communities for more than a century! These numbers clearly demonstrate the staying power and commitment Illinois banks have to their customers and the communities they serve.

What is troubling, though, is that current regulatory pressures are forcing many banks and savings institutions—particularly smaller ones—to make difficult choices, including whether or not to get out of certain business lines, or simply cut their losses and merge or sell their banks.

This means that Illinois inevitably will have fewer local banks, ultimately resulting in less competition and fewer choices for consumers. This, combined with less access to credit, the loss of jobs in our local communities and reduced opportunities for many charitable and other organizations, will be devastating to an already struggling economy.

Since the beginning of the financial crisis in 2008, regulators have closed 50 Illinois headquartered banks, and another 28 Illinois banks have been merged out of existence. And we continue to see a large number of mergers as banks try to find ways to survive in this ever increasing regulatory environment.

As Chairman of the IBA, I have traveled 2,000 miles in the last few weeks to meet with hundreds of Illinois bankers throughout the state. And their message is strong and consistent about the impact the overwhelming regulatory burden is having on their business and their ability to serve their customers.

Many Illinois banks—particularly community banks—no longer are talking about introducing new products and services, marketing strategies, business loan development, customer retention and acquisition, or delivery platform innovations. Instead, they are hiring new compliance personnel, shifting other staff resources to compliance issues, creating new compliance policies, buying new software to ensure compliance, and paying legal and consulting fees to help comply with these new regulations and manage their regulators' ever-increasing expectations—all at the expense of their customers, local communities and shareholders.

And, as compliance burdens continue to increase and costs escalate, many community bankers are questioning the long-term viability of their banks, which lack the requisite resources necessary to comply with current, new, and yet to be determined, complicated regulations.

Last year, the Illinois Bankers Association conducted a survey of all banks in the state. We asked about how the current regulatory environment is affecting their business and how they expect the future regulatory environment will impact their costs of doing business as well as their business decisions.

More than 160 banks and thrifts responded to our survey, and some of the data that we gleaned was simply startling. In addition to outsourcing compliance functions, hiring additional staff, and retaining more capital and earnings in lieu of lending, many community banks will consider options we feared the most. More than one third of the banks surveyed said they are likely to consider merging with other banks, or selling their bank to a larger institution.

Of the total number of banks and thrifts in Illinois, 423 of them are under $250 million in assets. Consider the significant impact on the state of Illinois and its communities if these banks can't survive amid the mass of new regulations.

My written testimony contains an attachment of just a few "real life" examples from Illinois bankers that I have heard. One comment from a bank with under $250 million in assets stands out because it mirrors what we hear over and over again…..The comment (in part), reads: "We used to devote half of one employee's time to compliance, and now we have at least one full-time employee plus two other staff with compliance related duties. We estimate this additional cost at around $50,000, annually. He further stated: “we have raised our fees on virtually every loan type to try to make up for all of our compliance work in making loans. The biggest burden by far is 1-4 family residential mortgages. I can see many banks getting totally out of making home mortgages. I would say this is the most overwhelmed with regulations I have felt in my 20 years in banking, and it is a fight every day to keep our employees up to date and fully trained. I cannot see the viability of banks under $100 million. They will not have the staff to do this, and if they hire outside vendors, then they will not make any money for their local investors, so why do it?”

As regulators and the Consumer Financial Protection Bureau attempt to streamline existing rules and develop new ones to implement Dodd-Frank, we urge you and all members of Congress to hold all regulators accountable to determine the real costs of compliance, particularly the cumulative effect of constantly changing rules on a banks’ ability to carry out its core business of serving its customers and providing credit.

It is crucial that the perceived benefits of each rule be weighed against its ultimate costs to a bank’s customers—including the costs that it adds to a particular product or service as well as its impact on the availability of access to those products and services.

We hope Congress will exercise prudent oversight of the CFPB as they start to implement rules. We urge you to make sure that the CFPB does not add a new layer of regulation, instead of replacing layers of regulation as it was intended.

We also want to express our strong support for two bills that are pending in Congress. H.R. 3461 seeks to address some of the concerns related to the examination environment by calling for timely examination reports, more precise and understandable classification standards for commercial loans, an expedited and independent appeals process, as well as an independent ombudsman to ensure consistency in exams. Also, H.R. 1697/S. 1600 would provide community banks with some needed regulatory and tax relief, as many compliance requirements disproportionately burden community banks, and ultimately would help community banks free up the needed capital to continue serving their customers and communities.

In closing, Illinois and the rest of the country cannot afford to have fewer banks. Our communities depend on banks every day. **Banks create jobs!** We all know that small business lending plays an essential role in the economic recovery and in creating desperately needed job growth.

Banks are businesses! Illinois-headquartered banks and thrifts employ over 58,200 Illinois residents, and together with out-of-state banks and thrifts doing business in the state, the Illinois banking industry employs over 95,000 people in Illinois, who all contribute to the local economy.

Bankers are community leaders! They provide leadership to numerous organizations and activities that are important to our communities—whether it is the local United Way chapter or food bank, or serving on the board of a hospital or local chamber of commerce—bankers facilitate economic vitality in communities across this State and indeed the Nation!

Thank you again for coming to Illinois, and for allowing Illinois bankers to candidly discuss our concerns regarding the regulatory environment, and to recommend some solutions to help foster a strong economy.

Illinois bankers are committed to helping restore our economy, and we know Congress is committed to doing the same. We look forward to working with you to achieve our mutual objective.

United States House of Representatives
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"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
James M. Roolf	1) Illinois Bankers Association 2) First Midwest Bank

3. Business Address and telephone number:

[redacted]

4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☒ No	☒ Yes ☐ No

6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

First Midwest Bank, in December of 2008, received $193 million in TARP funds. The entire amount was repaid in full to the U.S. Treasury on November 23, 2011. Additionally, First Midwest paid to Treasury $28.6 million in preferred stock dividends.

7. Signature:

James L. Roolf
12/2/11

Please attach a copy of this form to your written testimony.